

ECONOMIC INDICATORS

Research Department, First Hawaiian Bank

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Revising Hawaii's System of Taxation

One of the most comprehensive proposals for the reform of Hawaii's tax system was recently released for consideration in the 1985 Legislative biennium. Originally conceived in 1978 by amendment to the Constitution of the State of Hawaii, the Tax Review Commission was established in 1980 to evaluate the state tax structure, formulate revenue and tax policy recommendations, and submit its findings to the legislature.

Like any other state, the historical development of the Hawaiian tax system was influenced by economic, political, and social factors. Yet, ideas as to what constitutes a "good" tax system have had their influence. Apart from adequacy of revenues: (1) the distribution of the tax burden should be equitable. Everyone should pay their "fair share;" (2) taxes should not interfere with economic growth; (3) the tax system should be easy to administer by the government, and easy to understand by the taxpayer; and (4) the costs of administration and compliance should be as low as possible.

The first principle, the equity or "fair share" requirement is based on two underlying concepts. The first concerns the "benefit" principle where each taxpayer contributes in accordance with the benefits received from public services. The other concept concerns the "ability-to-pay" where each taxpayer contributes according to ability to pay. This calls for equal amounts of tax to be paid when incomes are equal, and for different amounts when incomes differ. Both rules are part of the same principle of equal treatment, which says that taxes should impose an equal sacrifice on all persons regardless of income. In short, those who make more should pay more, and vice-versa.

In the light of these requirements, the Tax Review Commission has taken a decisive step toward proposing a tax system that insures greater fairness in tax burdens, increased support for business, and greater efficiency of administration.

The Commission's recommendations enhance the equity of the tax system by: (1) reaffirming the desirability of a progressive income-tax rate system; (2) eliminating special income and excise tax preferences; (3) bringing the state individual income-tax base into closer conformity with the federal income tax through inclusion of pension and social security income; (4) adjusting income-tax rates for the effects of inflation; (5) adopting the alternative minimum income tax; and (6) adjusting Hawaii corporate income tax brackets to achieve a more progressive tax burden. In addition, the concept of taxation according to benefit received clearer definition in the recommendations to: (1) separate state special funds, such as highways, airports, harbors, parking, unemployment compensation, and disability compensation, from the general fund, and place them on a self-supporting basis; and (2) increase fees for the use of public facilities and services more in accordance with the value of the service received.

Negative impacts of tax policy on businesses would be resolved by recommendations to: (1) replace the present general excise tax with a uniform privilege-of-business tax on the gross receipts of all businesses, and a 4 percent net-excise tax, which will

reduce tax pyramiding; (2) adjust excise tax credits for inflation; and (3) exempt goods exported out-of-state from the net-excise tax.

To attain efficiency of administration, the recommendations call for: (1) utilizing specific expenditure programs to aid businesses rather than tax incentives; and (2) utilizing tax credits rather than exemptions for food and drug purchases.

In view of the high priority given to equity and efficiency in the overall recommendations, the issue of adequate revenues assumes heightened importance. One recommendation had to do with the establishment of a "rainy-day" fund to stabilize year-to-year fluctuations in revenues. Other recommendations included: (1) a hotel-room tax; (2) revising depreciation rates for corporations; (3) placing public-service companies under the excise tax rules; (4) establishing a means by which commercial airlines contribute to the general tax fund; (5) changing the tax on fuel and liquor to a percentage basis; (6) reviewing taxation policies for insurance companies and financial institutions; and (7) considering the adoption of a state lottery system.

Clearly, the Tax Review Commission proposals represent a broad-based, thorough, and comprehensive review of our Hawaii tax system. At the same time, however, given the quality and intent of the proposals, numerous questions remain to be answered. What will be the true tax incidence effects of the recommendations on the business community and general public? Will there be in fact a net improvement in Hawaii's business climate, particularly with Hawaii's many small businesses? What will be the administrative costs of transforming Hawaii's present system of taxation to the one being proposed?

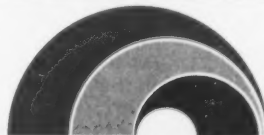
For example, in the case of the general-excise tax, imposing an across-the-board one-half percent privilege tax results in a completely new and unpredictable pattern of tax incidence among various industries. One alternative, originally suggested in a 1968 study by Arthur D. Little, Inc. would be to retain the existing general-excise tax system, but apply a reduced one-half percent tax on all interfirm transactions.

More attention also needs to be focussed on the county governments' power to issue special purpose revenue bonds for industrial-development purposes, as well as whether the county property-tax base is sufficient to finance long-term demands for county public services.

Another area deserving attention is the costs of implementing the proposals both in terms of the costs to the state government to establish and administer the new system of taxation, as well as the costs to businesses in complying with the new tax system.

The Tax Review Commission has developed a commendable blueprint for Hawaii's tax system. To the extent that the details can be worked out within the framework of the basic principles established in the recommendations, the Commission will have fulfilled its constitutional mandate, and Hawaii will be one step closer to a more equitable and efficient system of taxation.

Copies of the complete recommendations are available from the Tax Review Commission.



FIRST HAWAIIAN BANK

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u. s. economic indicators

Series	Unit	Period	Number	Percent Change from preceding period year ago	
GENERAL BUSINESS INDICATORS					
COMPOSITE INDEX OF					
LEADING INDICATORS*	1967 = 100	Sept.	164.6p	0.4	2.7
GROSS NATIONAL PRODUCT**					
In Current Dollars	bil. \$	3rd Qtr.	3,701	1.5	10.6
In 1972 Dollars	bil. \$	3rd Qtr.	1,650	0.7	6.5
PERSONAL INCOME**	bil. \$	Sept.	3,071p	0.9	10.3
RETAIL SALES*	mil. \$	Sept.	108,520p	1.6	9.0
BANKING AND CREDIT					
DEBITS TO DEMAND DEPOSITS**	bil. \$	August	270.9	-1.6	10.4
BANK LOANS*	bil. \$	Sept.	1,251p	0.8	14.1
AVERAGE PRIME RATE					
CHARGED BY BANKS	percent	October	12.6	-3.1	14.5
CONSUMER INSTALLMENT DEBT*	mil. \$	August	443,235	1.4	19.6
CONSTRUCTION					
CONSTRUCTION PUT IN PLACE*	bil. \$	Sept.	315.3p	1.1	11.9
CONSTRUCTION COST INDEXES					
Residences	1967 = 100	July	360.3	1.9*	5.5
Apts, Hotel, Office Bldgs.	1967 = 100	July	362.6	0.8*	3.6
EMPLOYMENT					
CIVILIAN EMPLOYMENT*	thous.	Sept.	105,239	0.3	3.3
UNEMPLOYMENT*	thous.	Sept.	8,460	-0.8	-18.3
UNEMPLOYMENT RATE*	percent	Sept.	7.3	-1.4	-19.8
PRICES					
CONSUMER PRICE INDEX (All Items)					
Urban Wage Earners and Clerical Workers (Revised)	1967 = 100	October	312.2	0.0	3.6
All Urban Consumers	1967 = 100	October	315.3	0.3	4.2
PRODUCER PRICE INDEXES					
Finished Goods*	1967 = 100	October	291.6	-0.2	3.1
All Commodities	1967 = 100	August	310.9	-0.4	2.0
p = preliminary.					
*Seasonally adjusted.					
*Compared to May, 1984.					
**Seasonally adjusted at annual rates.					
Sources:					
General Business Indicators—U.S. Department of Commerce.					
Banking and Credit—Board of Governors of the Federal Reserve System					
Construction—U.S. Department of Commerce, The American Appraisal Company.					
Employment and Prices—U.S. Department of Labor, Bureau of Labor Statistics.					

p=preliminary.

*Seasonally adjusted.

*Compared to May, 1984.

**Seasonally adjusted at annual rates.

Sources:

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Construction—U.S. Department of Commerce, The American Appraisal Company.

Employment and Prices—U.S. Department of Labor, Bureau of Labor Statistics.

business activity in hawaii

TOURISM					
OVERNIGHT OR LONGER VISITORS	number	Sept.	342,200	-20.7	7.8
	number	Jan.-Sept.	3,633,430	.....	10.7
Westbound	number	Sept.	247,160	-25.0	5.1
	number	Jan.-Sept.	2,787,460	.....	8.6
Eastbound	number	Sept.	95,040	-6.7	15.4
	number	Jan.-Sept.	850,970	.....	18.1
AVERAGE DAILY VISITOR CENSUS	number	1983	97,395	.....	2.8
AVERAGE LENGTH OF STAY	no. of days	1983	10.5	.....	0.0
MEETINGS ATTENDANCE	number	Sept.	20,661	110.4	26.7
ORGANIZED GROUP TOURS	number	Sept.	59,590	-11.5	11.2
NEIGHBOR ISLAND VISITORS*					
Maui	number	Sept.	125,020	-21.6	1.7
	number	Jan.-Sept.	1,406,550	.....	10.0
Hawaii	number	Sept.	52,230	-15.9	2.5
	number	Jan.-Sept.	573,990	.....	4.3
Kauai	number	Sept.	50,580	-13.3	2.8
	number	Jan.-Sept.	607,590	.....	13.3
VISITOR ACCOMMODATIONS					
STATE	number				
Oahu	number	June	37,910	2.9	10.3
Waikiki	number	June	33,192	3.0	10.2
Maui (includes 12 on Lanai)	number	June	13,336	1.5	5.2
Molokai	number	June	629	0.3	0.0
Hawaii	number	June	7,209	0.8	-2.2
Kauai	number	June	5,501	3.5	22.9
HOTEL OCCUPANCY					
STATE	percent	Sept.	69.9	-11.3	6.2

n.a.=not available.

*Estimated Westbound.

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CURRENT BUSINESS TRENDS

The visitor industry continued on its way to a record year. During September, 342,200 tourists came to Hawaii, representing a healthy 7.8 percent improvement over September 1983. September's figures brought the cumulative total to 3,638,430, a substantial 10.7 percent gain compared to the same period in 1983.

Though westbound visitors (those coming from the Mainland, Canada, and Europe) continued to be the mainstay of the tourist industry, eastbound visitors (those coming from Asia, primarily Japan and Oceania) rose significantly this year. During the January to September 1984 period, westbound visitors totaled 2,787,460, which was 8.6 percent ahead of the same period in 1983. Eastbound visitors totaled 850,970 during this same period, an impressive 18.1 percent growth. 1984 was the first year that the eastbound visitor count exceeded one million.

Travel by westbound visitors to the Neighbor Islands has also increased. Maui County with 1,406,550 arrivals so far this year, showed a 10.0 percent growth over 1983. Kauai County's total for the January-September period was 607,590, a significant 13.3 percent above the previous year. Hawaii County reported 573,990 visitors, a relatively low gain of 4.3 percent.

The tourist industry expects the last quarter to finish on a very strong note. The recent realtor's convention should help to boost the November visitor numbers. December also promises to set records; incoming airline flights are booked solid for the holiday season. This includes Delta Airlines which will begin daily flights to Honolulu on December 14th. Interisland airlines also have reported significantly higher advanced bookings for this holiday, when compared to a year ago. Similarly, most of the major hotels are fully booked for the Christmas and New Year period. As a result, the Hawaii Visitors Bureau (HVB) has projected a record-breaking 4.5 million visitors for this year.

Construction remained the one area that has not benefited from the economic recovery. As of August, the total dollar value of construction put in place was down by 2.2 percent from the previous year; the value dropped from \$918.0 million for January through August of 1983 to \$897.4 million for the same period in 1984.

In the private sector, permit data suggested that this trend will continue, even if labor problems are solved. The dollar value of residential permits for the first nine months of 1984 was 8.8 percent below the

business activity in hawaii [cont.]

Series	Unit	Period	Number	Percent Change from preceding period	year ago
HOTEL OCCUPANCY (continued)					
Oahu	percent	Sept.	75.7	-10.5	5.3
Maui	percent	Sept.	69.8	-16.9	1.6
Hawaii	percent	Sept.	51.1	-6.2	27.4
Kauai	percent	Sept.	59.6	-9.7	-4.6
DEFENSE EXPENDITURES					
APPROPRIATED FUNDS TOTAL					
Military Payroll	mil. \$	3rd Qtr.	482.3	-0.3	-0.1
Civilian Payroll	mil. \$	3rd Qtr.	214.4	2.2	0.6
Local Purchases	mil. \$	3rd Qtr.	140.0	-12.7	-2.8
			127.8	12.4	1.7
SUGAR					
SUGAR PRODUCTION	thous. tons	Jan.-Sept.	916.7	.....	6.2
N. Y. RAW SUGAR PRICE	\$/ton	Sept.	434.1	-1.1	-2.4
PINEAPPLE SHIPMENTS					
CANNED ^a	mil. \$	Jan.-Aug.	134.4	.....	22.5
FRESH	thous. lbs.	Jan.-Sept.	187.5	.....	1.8
DIVERSIFIED AGRICULTURE					
CROPS					
Flowers & Nursery Products					
(wholesale)	thous. \$	1983	36,165	.....	18.2
Anthurium Outshipments	th. dozens	Jan.-Sept.	1,283	.....	8.2
Potted Foliage ^b	thous. \$	1983	10,836	.....	22.9
Other ^c	thous. \$	1983	19,294	.....	19.8
Fruits & Nuts					
Papaya Sales	th. lbs.	Jan.-Sept.	49,260	.....	60.9
Average Farm Price	cents/lb.	Sept.	14.0	16.7	-54.8
Macadamia Nut Sales (in shell)	th. lbs.	1983	38,160	.....	3.9
Average Farm Price	cents/lb.	1983	68.0	.....	-8.0
Other ^d	thous. \$	1983	3,002	.....	-10.7
Vegetable and Melon Production ^e	th. lbs.	Jan.-Sept.	52,316	.....	1.4
Other Crop Sales ^f	thous. \$	1983	11,936	.....	41.2
LIVESTOCK					
Beef Production (dressed wt.)	th. lbs.	Jan.-Sept.	23,422	.....	-1.6
Average Farm Price (feedlot beef)	cents/lb.	Sept.	93.5	-0.5	0.0
Hog Production (dressed wt.)	th. lbs.	Jan.-Sept.	4,469	.....	-0.2
Average Farm Price	cents/lb.	Sept.	105.0	1.9	4.0
Milk Production	mil. lbs.	Jan.-Sept.	113.8	.....	1.2
Average Price Sold to Plants	\$/100 lbs.	Sept.	20.67	10.1	-0.1
Egg Production	mil.	Jan.-Sept.	159.2	.....	7.4
Average Farm Price	cents/doz.	Sept.	86.0	-2.3	3.0
Other Livestock Sales ^g	thous. \$	1983	6,420	.....	9.3
CONSTRUCTION					
CONSTRUCTION PUT IN PLACE	mil. \$	Jan.-Aug.	897.4	.....	-2.2
PRIVATE PERMITS AUTHORIZED					
RESIDENTIAL					
STATE	thous. \$	Jan.-Sept.	283,223	.....	-8.8
C&C of Honolulu	thous. \$	Jan.-Sept.	179,336	.....	2.0
Maui County	thous. \$	Jan.-Sept.	32,399	.....	5.6
Hawaii County	thous. \$	Jan.-Sept.	40,179	.....	-1.4
Kauai County	thous. \$	Jan.-Sept.	31,309	.....	-50.7
SINGLE FAMILY UNITS					
STATE	number	Jan.-Sept.	3,277	.....	25.7
C&C of Honolulu	number	Jan.-Sept.	1,807	.....	36.8
Maui County	number	Jan.-Sept.	489	.....	15.1
Hawaii County	number	Jan.-Sept.	708	.....	7.6
Kauai County	number	Jan.-Sept.	273	.....	34.5
MULTIPLE FAMILY UNITS					
STATE	number	Jan.-Sept.	699	.....	-63.1
C&C of Honolulu	number	Jan.-Sept.	583	.....	-66.1
Maui County	number	Jan.-Sept.	6	.....	-72.7
Hawaii County	number	Jan.-Sept.	71	.....	-4.1
Kauai County	number	Jan.-Sept.	39	.....	-49.4
NONRESIDENTIAL					
STATE	thous. \$	Jan.-Sept.	154,333	.....	-11.1
C&C of Honolulu	thous. \$	Jan.-Sept.	104,102	.....	-4.6
Maui County	thous. \$	Jan.-Sept.	14,232	.....	10.3
Hawaii County	thous. \$	Jan.-Sept.	23,313	.....	-12.3
Kauai County	thous. \$	Jan.-Sept.	10,764	.....	-57.0
PUBLIC CONTRACTS AWARDED					
TOTAL GOVERNMENT PROJECTS	thous. \$	Jan.-Oct.	324,199	.....	45.3

^aGross taxable income valued at time of shipment.

^bPotted foliage grown for indoor or patio use.

^cIncludes cut flowers, cut orchids, lei flowers, cut foliage, other potted plants, unfinished flower and foliage stock, and other nursery products.

^dIncludes avocados, bananas, guavas, oranges, passion fruit, and tangerines.

^eIncludes snap beans, cabbage, celery, sweet corn, cucumbers, lettuce, onions, green peppers, tomatoes, and watermelons.

^fIncludes coffee, taro, feed and forage crops, and forest products.

^gIncludes broilers and chickens, turkeys, sheep, wool, horses, honey, and beeswax.

1983 value, dropping from \$310.7 million to \$283.2 million. Nonresidential permits were lower, falling by 11.1 percent over the year, from \$173.6 million to \$154.3 million.

Government construction offered the one bright spot in the construction picture. Contracts awarded during the first ten months of 1984 were 45.3 percent ahead of last year; the total leaped from \$223.2 million in 1983 to \$324.2 million in 1984. This was the product of divergent trends. Construction at the county level was down by 8.7 percent, decreasing from \$62.4 million in 1983 to \$56.9 million in 1984. The dollar value of state contracts jumped by 32.9 percent over the year from \$119.8 million in 1983 to \$159.2 million in 1984. The most impressive gain was seen in federal projects which increased by an extraordinary 163.3 percent, from \$41.0 million in 1983 to \$108.1 million in 1984. Added maintenance and repair responsibilities contributed to this increase. Among the major contracts awarded were \$12.0 million for a new barracks and dining facility at Schofield Barracks, \$7.5 million to repair Halsey Terrace housing, and \$8.1 million for installation of heat pumps at Aliamanu Military Reservation and Schofield Barracks. It was estimated by the Army Corp of Engineers that 85 to 90 percent of the projects were awarded to local private contractors.

Statewide, the unemployment rate grew by one-half of one percent, going from 6.1 percent in August to 6.6 percent in September. On a national level, that made Hawaii one of only three states (besides North Dakota and Alaska) that showed jobless rate increases in September. However, Hawaii still remained below the national unemployment average of 7.1 percent.

A portion of this rise in joblessness was expected, attributable to the usual seasonal layoffs. However, a marked gain was also seen when Septembers of 1983 and 1984 were compared. Unemployment jumped from 6.2 percent in September of 1983 to 6.6 percent in September of 1984. This represented the first time in 1½ years that unemployment experienced an over-the-year increase. The Department of Labor and Industrial Relations stated that part of this gain was due to the effects of labor disputes in the construction industry.

All of the counties showed over-the-month growth in unemployment ratios. Oahu reported the smallest gain, going from 5.8 percent in August to 6.2 percent in September. Hawaii County's rate increased from 8.1 percent in August to 8.7 percent in September, and Maui County's increased from 6.5 percent in August to 7.3 percent in September. Kauai County suffered the severest gain, jumping over a full percentage point from 7.5 percent in August to 8.7 percent in September.

Contributing to the increased unemployment rate was a dramatic job count reduction during September. The number of jobs in the state fell by 2.7 percent between August and September, representing a loss of 12,250 jobs. Most of the decreases were seasonal. State and county government payrolls were reduced by 5,750 jobs. Most of these were

business activity in hawaii [cont.]

Series	Unit	Period	Number	Percent Change from preceding period year ago	
PUBLIC CONTRACTS AWARDED (continued)					
BY LEVEL OF GOVERNMENT					
FEDERAL	thous. \$	Jan.-Oct.	108,066	.....	163.3
STATE	thous. \$	Jan.-Oct.	159,193	.....	32.9
COUNTY	thous. \$	Jan.-Oct.	56,940	.....	-8.7
BY LOCATION OF PROJECT					
C&C of Honolulu	thous. \$	Jan.-Oct.	242,630	.....	41.8
Maui County	thous. \$	Jan.-Oct.	27,276	.....	-1.7
Hawaii County	thous. \$	Jan.-Oct.	17,152	.....	-3.7
Kauai County	thous. \$	Jan.-Oct.	37,141	.....	472.7
HONOLULU CONSTRUCTION COST INDEXES					
SINGLE FAMILY	1967 = 100	October	351.1	0.1	3.4
HIGH-RISE	1967 = 100	October	369.7	0.2	3.2
REAL ESTATE					
OAHU: New Sales					
Single Family	number	Jan.-Oct.	1,234	.....	37.7
Condominium	number	Jan.-Oct.	1,823	.....	-5.7
Resales					
Single Family	number	Jan.-Sept.	1,281	.....	-2.5
Average Price	dollars	Jan.-Sept.	188,722	.....	4.2
Condominium	number	Jan.-Sept.	1,688	.....	1.4
Average Price	dollars	Jan.-Sept.	102,451	.....	-1.3
MAUI: Resales					
Single Family	number	Jan.-Sept.	155	.....	6.9
Average Price	dollars	Jan.-Sept.	180,572	.....	13.2
Condominium	number	Jan.-Sept.	310	.....	-2.2
Average Price	dollars	Jan.-Sept.	143,856	.....	-4.7
HAWAII: Resales					
Single Family	number	Jan.-Sept.	254	.....	-11.8
Average Price	dollars	Jan.-Sept.	88,213	.....	-6.1
Condominium	number	Jan.-Sept.	81	.....	5.2
Average Price	dollars	Jan.-Sept.	96,718	.....	-16.1
KAUAI: Resales					
Single Family	number	Jan.-Sept.	55	.....	25.0
Average Price	dollars	Jan.-Sept.	134,015	.....	9.2
Condominium	number	Jan.-Sept.	31	.....	72.2
Average Price	dollars	Jan.-Sept.	129,648	.....	-16.3
BUSINESS SALES					
GROSS BUSINESS RECEIPTS	mil. \$	Jan.-Aug.	16,076	.....	11.0
DIVERSIFIED MANUFACTURING	mil. \$	Jan.-Aug.	368.1	.....	9.0
DIVERSIFIED AGRICULTURE	mil. \$	Jan.-Aug.	165.3	.....	11.4
RETAILING	mil. \$	Jan.-Aug.	5,670	.....	8.7
WHOLESALE	mil. \$	Jan.-Aug.	4,141	.....	18.1
SERVICES	mil. \$	Jan.-Aug.	3,696	.....	13.0
OAHU NEW CAR SALES	number	Sept.	1,803	-31.3	-24.4
PUBLIC UTILITIES					
ELECTRICITY GENERATED	mil. kwh.	Sept.	583.0	-2.9	0.0
GAS SALES	th. therms.	Sept.	3,786	1.3	-1.3
TELEPHONE LINES IN SERVICE	thous.	Sept.	470.6	0.4	3.8
HONOLULU PRICES					
HONOLULU CONSUMER PRICE INDEX					
Urban Wage Earners and					
Clerical Workers (Revised), All Items	1967 = 100	October	294.5	0.3*	3.0
All Urban Consumers, All Items	1967 = 100	October	287.4	0.5*	4.0
*Compared to August, 1984.					
Sources:					
Tourism—Hawaii Visitors Bureau. Pannell, Kerr, Forster.					
Defense—Reports from various branches of the armed forces.					
Sugar—Hawaiian Sugar Planters' Association.					
Pineapple—Hawaii State Department of Taxation. Hawaii State Department of Agriculture.					
Diversified Agriculture—Hawaii State Department of Agriculture.					
Construction—Hawaii State Department of Taxation. Honolulu County Building Department. Hawaii, Kauai, and Maui County departments of public works. First Hawaiian Bank, Research Department.					
Real Estate—Monitor Hawaii, Inc. Locations Inc.					
Business Sales—Hawaii State Department of Taxation. Cardinal Mailing Services, Ltd.					
Public Utilities—Hawaiian Electric Company, Inc. Citizens Utilities Company. Molokai Electric Co., Ltd. Gasco, Inc. Hawaiian Telephone Company.					
Honolulu Prices—U.S. Department of Labor, Bureau of Labor Statistics.					

*Compared to August, 1984.

Sources:

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Defense—Reports from various branches of the armed forces.

Sugar—Hawaiian Sugar Planters' Association.

Pineapple—Hawaii State Department of Taxation, Hawaii State Department of Agriculture.

Diversified Agriculture—Hawaii State Department of Agriculture.

Construction—Hawaii State Department of Taxation, Honolulu County Building Department, Hawaii, Kauai, and Maui County departments of public works, First Hawaiian Bank, Research Department.

Real Estate—Monitor Hawaii, Inc., Locations Inc.

Business Sales—Hawaii State Department of Taxation, Cardinal Mailing Services, Ltd.

Public Utilities—Hawaiian Electric Company, Inc., Citizens Utilities Company, Molokai Electric Co., Ltd., Gasco, Inc., Hawaiian Telephone Company.

Honolulu Prices—U.S. Department of Labor, Bureau of Labor Statistics.

students hired temporarily for the summer. Pineapple canneries decreased their work force by 2,000 as the summer harvest season wound down. Retail stores laid off 1,000 temporary summer sales and inventory workers. Construction jobs dropped by more than 800. This was largely due to the electricians' strike and the concrete workers' walk-out.

Total personal income figures for the second quarter of 1984 showed strong gains, reflecting overall improvements in the economy. Between the second quarters of 1983 and 1984, total personal income in the state increased by 7.8 percent, from \$12.3 billion in 1983 to \$13.3 billion in 1984. However, Hawaii remained behind the national average which expanded by 9.8 percent over the year, growing from \$2.7 trillion in the second quarter of 1983 to \$3.0 trillion during the same period in 1984. This represented real gains since the inflation rate during the second quarter was held to 4.3 percent both locally and on a national basis.

THE STATE WATER CODE

A proposed State Water Code has just been developed by the State Advisory Study Commission on Water Resources for public review and presentation to the 1985 Legislature in January. This code attempts to assist in the protection, control, and regulation of Hawaii's water resources, as well as establish a State Water Resources Agency, as mandated by the Hawaii Constitution.

Besides being constitutionally required, the water code is especially needed now to help clarify Hawaii's water laws, which are in limbo due to years of legal challenges. These laws have their origin in ancient Hawaii, where the use and distribution of water was governed by a complex system of water rights which basically apportioned water according to one's holding of land. As westerners came to Hawaii, ambitious irrigation projects were undertaken by the sugar companies to supply their plantations. To protect these enormous investments, western notions of water as private property were introduced into Hawaiian law. Although attempts were made to weave this historical patchwork of water law into a consistent framework, water rights today remain confusing and uncertain.

Perhaps the most significant court case in which fundamental principles of Hawaii's water law are now at stake is one known as McBryde Sugar Co. v. Robinson, which was decided in 1973. In this case, the Hawaii Supreme Court established two stunning principles. First, contrary to past practice,

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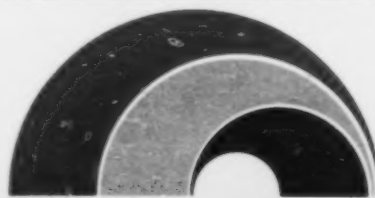
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population and personal income in hawaii

Series	Unit	Period	Number	Percent Change	
				from preceding period	year ago
POPULATION					
DE FACTO—STATE	thous.	July 1, 1984	1,143	-----	2.1
TOTAL RESIDENT—STATE	thous.	July 1, 1984	1,040	-----	1.7
C&C of Honolulu	thous.	July 1, 1984	905.6	-----	1.2
Maui County	thous.	July 1, 1984	83.2	-----	4.4
Hawaii County	thous.	July 1, 1984	106.8	-----	2.7
Kauai County	thous.	July 1, 1984	44.8	-----	2.8
CIVILIAN RESIDENT—STATE	thous.	July 1, 1984	979.6	-----	1.2
MILITARY PERSONNEL—STATE	number	July 1, 1984	60,800	-----	3.0
Ashore	number	July 1, 1984	56,321	-----	4.8
Afloat	number	July 1, 1984	4,483	-----	-16.5
CIVILIAN DEPENDENTS OF MILITARY	number	July 1, 1984	57,083	-----	1.3
FOREIGN IMMIGRATION	number	12 mo. total for period ending 10/84	5,413	-0.9	1.4
PERSONAL INCOME					
TOTAL PERSONAL INCOME**	mil. \$	2nd Qtr.	13,273	2.0	7.8
Employment Income†	mil. \$	2nd Qtr.	9,663	1.5	6.9
Manufacturing	mil. \$	2nd Qtr.	455	-1.7	5.1
Construction & Mining‡	mil. \$	2nd Qtr.	534	-0.4	2.3
Wholesale	mil. \$	2nd Qtr.	407	2.5	10.3
Retail	mil. \$	2nd Qtr.	1,101	2.7	9.3
Finance, Ins. & Real Estate	mil. \$	2nd Qtr.	667	1.4	6.7
Trans., Comm., & Util.	mil. \$	2nd Qtr.	857	1.9	6.5
Services	mil. \$	2nd Qtr.	2,116	3.3	10.6
Farm & Other	mil. \$	2nd Qtr.	303	4.1	1.3
Federal Civilian	mil. \$	2nd Qtr.	856	0.1	-0.3
Federal Military	mil. \$	2nd Qtr.	1,243	-0.5	10.7
State & Local	mil. \$	2nd Qtr.	1,123	1.1	3.5
Property Income					
(Dividends, Interest, Rent)	mil. \$	2nd Qtr.	2,504	4.1	13.2
Transfer Payments (1,743) minus					
Personal Contributions					
For Social Ins. (837)	mil. \$	2nd Qtr.	1,106	1.7	4.2
PER CAPITA PERSONAL INCOME					
STATE PER CAPITA	dollars	1983	12,114	-----	4.5
PER CAPITA BY COUNTY					
C&C of Honolulu	dollars	1982	12,130	-----	5.3
Maui County	dollars	1982	10,458	-----	7.1
Hawaii County	dollars	1982	9,148	-----	2.2
Kauai County	dollars	1982	9,869	-----	5.8

**Total personal income and all components are seasonally adjusted at annual rates.

†These immigration statistics include only those entering Honolulu ports and do not include status changes.

‡Includes wage and salary disbursements, proprietors' income, and other labor income.

§Income from mining not shown separately to avoid disclosure of confidential information.

Sources:

Population—Hawaii State Department of Planning and Economic Development, U.S. Bureau of the Census, U.S. Immigration and Naturalization Service.

Personal Income—U.S. Department of Commerce, Bureau of Economic Analysis.

the Court declared that water could no longer be transported from one watershed to another. Rights to water could not be transferred or sold, and past contracts making such transfers were voided. Secondly, although the Court in the past had upheld the private ownership of surface water by the sugar companies who developed the water, the Court now declared that water was "owned" by the state. In 1982, the Court clarified this ruling to mean that: (1) water transfers were still possible, but had to respect the rights of existing users; and (2) that the state had the power to regulate the water as a public trust, rather than materially owning the water. Thus, the ruling merely reaffirmed the state's long-standing regulatory powers.

With the McBryde case currently on appeal to the U.S. Ninth Circuit Court, the uncertainty created by the fundamental water rights issues has clouded the present development of the State Water Code and its proposed water permit system. While waiting for a decision on McBryde, the people of Hawaii are scrutinizing the provisions of the proposed water code.

In its original draft issued this past September, the proposed code addressed all ground water, surface water, and coastal water in the state, and is based on a system of permits for water use. Under this system, all water users except for individual domestic users must obtain a permit for a specified quantity of water good for 30 years, with permit renewals to be granted except in the most compelling circumstances. In making permit renewals, existing water users are explicitly favored over new users. Permit decisions are to be made by the Board of Land and Natural Resources, based on its finding whether the proposed water use: (1) is a "reasonable/beneficial" use; (2) will not interfere with any existing legal use of water; and (3) is consistent with the public interest and the State Water Plan. Existing users must also have a water use which conforms to Hawaii common law, a requirement for which compliance presumably can only be determined after McBryde is settled. Water may be transferred from one watershed to another if the Board deems the action to be in the public interest. Permits may themselves be transferred if the conditions of use are the same, and the Board is notified.

The most controversial provision contained in the draft is the requirement that any change in water usage by a permit holder must be approved by the Board. This includes any change in the land area irrigated, the amount of water used, the method of irrigation employed, and the site of water withdrawal or diversion. Critics of this re-

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HAWAIIAN BANK

D.I.C.

employment and unemployment in hawaii

Series	Unit	Period	Number	Percent Change	
				from preceding period	year ago
EMPLOYMENT IN STATE AND COUNTIES (number of persons)					
STATE					
Civilian Labor Force	thous.	Sept.	466.1p	-2.9	1.1
Employment	thous.	Sept.	435.3p	-3.4	0.6
Unemployment	thous.	Sept.	30.9p	4.7	8.4
Unemployment Rate	percent	Sept.	6.6p	8.2	6.5
C & C OF HONOLULU					
Civilian Labor Force	thous.	Sept.	355.7p	-2.9	1.4
Employment	thous.	Sept.	333.9p	-3.2	1.0
Unemployment	thous.	Sept.	21.9p	3.6	10.1
Unemployment Rate	percent	Sept.	6.2p	6.9	8.8
MAUI COUNTY					
Civilian Labor Force	thous.	Sept.	42.3p	-5.2	1.6
Employment	thous.	Sept.	39.2p	-6.0	1.3
Unemployment	thous.	Sept.	3.1p	6.9	-3.1
Unemployment Rate	percent	Sept.	7.3p	12.3	-3.9
HAWAII COUNTY					
Civilian Labor Force	thous.	Sept.	46.5p	-1.3	0.9
Employment	thous.	Sept.	42.5p	-1.8	0.2
Unemployment	thous.	Sept.	4.1p	7.9	10.8
Unemployment Rate	percent	Sept.	8.7p	7.4	7.4
KAUAI COUNTY					
Civilian Labor Force	thous.	Sept.	21.7p	-1.4	-2.7
Employment	thous.	Sept.	19.6p	-2.9	-4.3
Unemployment	thous.	Sept.	1.9p	11.8	18.8
Unemployment Rate	percent	Sept.	8.7p	16.0	20.8
JOB COUNT BY INDUSTRY					
TOTAL JOBS—STATE	thous.	Sept.	436,550p	-2.7	0.3
SUGAR (mill and field)	thous.	Sept.	8,000p	-2.4	-4.2
PINEAPPLE (cannery and field)	thous.	Sept.	3,900p	-33.9	-10.3
DIVERSIFIED MANUFACTURING					
excluding sugar and pineapple	thous.	Sept.	15,850p	-0.9	0.3
Durable Goods	thous.	Sept.	3,200p	-3.0	-5.9
Non-Durable Goods	thous.	Sept.	12,650p	-0.4	2.0
Apparel and Textiles	thous.	Sept.	2,850p	-1.7	-3.4
DIVERSIFIED AGRICULTURE					
excluding sugar and pineapple					
but including agricultural self-employed	thous.	Sept.	8,250p	0.0	-2.4
CONTRACT CONSTRUCTION	thous.	Sept.	15,150p	-5.3	-15.4
TRANSPORTATION	thous.	Sept.	21,300p	0.0	2.9
COMMUNICATION	thous.	Sept.	7,300p	-0.7	-2.0
UTILITIES	thous.	Sept.	2,450p	0.0	2.1
RETAIL TRADE	thous.	Sept.	89,500p	-1.1	2.3
WHOLESALE TRADE	thous.	Sept.	18,200p	-0.8	1.1
FINANCE, INSURANCE AND REAL ESTATE	thous.	Sept.	30,750p	-1.3	-1.8
HOTEL SERVICES—STATE	thous.	Sept.	27,300p	-1.4	3.2
Honolulu County	thous.	Sept.	15,600p	-1.6	6.5
Maui County	thous.	Sept.	6,000p	-1.6	-1.6
Hawaii County	thous.	Sept.	3,450p	0.0	3.0
Kauai County	thous.	Sept.	2,250p	-2.2	-6.3
OTHER SERVICES	thous.	Sept.	78,000p	0.3	2.2
FEDERAL GOVERNMENT	thous.	Sept.	32,050p	-0.3	0.5
Civilian Agencies	thous.	Sept.	11,600p	1.3	2.7
Defense Department	thous.	Sept.	20,450p	-1.2	-0.7
STATE GOVERNMENT	thous.	Sept.	39,850p	-6.5	1.7
COUNTY GOVERNMENT	thous.	Sept.	12,800p	-16.9	0.8
UNEMPLOYMENT INSURANCE CLAIMS AND PAYMENTS					
INSURED UNEMPLOYMENT					
(weekly average)	number	Sept.	11,932	1.2	-14.4
INTRASTATE INITIAL CLAIMS	number	Sept.	6,495	4.0	14.8
INTERSTATE INITIAL CLAIMS	number	Sept.	317	-18.7	-17.4
UNEMPLOYMENT INSURANCE BENEFITS					
	thous. \$	Sept.	6,194	-1.1	6.4

p = preliminary.

Sources: Employment, Job Count, and Unemployment Insurance—Hawaii State Department of Labor and Industrial Relations.

quirement have charged that this may impose a severe hardship for both water users and government regulators due to the sheer volume of applications and approvals which would have to be processed if the provision were to be strictly enforced.

Overall, the code represents a strong regulatory approach to water allocation. An alternative approach recommended by many economists is to let the marketplace allocate water and water rights according to prices determined by supply and demand, much like any other commodity. In the western states, such systems have been used in conjunction with governmental water management programs that document the size of water resources and the amount each user consumes, adjudicate water allocation disputes, and administer water transfers and the entry of new users. In the experience of states such as New Mexico, these market systems have encouraged the reallocation of water to more profitable uses. This contrasts with the record of regulatory systems, which have tended to fix in place inefficient patterns of usage, to protect existing users at the expense of new users, to discourage new water development, to sometimes reward wasteful consumption, and to be incapable of an objective and equitable determination of priority among water uses. Governmental systems, typically based on ambiguous notions of "beneficial" or "reasonable" use, also are said to offer less security to the holders of water rights than afforded by market systems.

Opponents of a market approach to water argue that water is inherently unfit for market allocation; that the market will not protect third parties affected by water rights transfers; that if water rights can be sold, the rich will eventually own all the water; that agricultural uses will be priced out of the market by heavy municipal users; and that the public interest and the environment cannot be well served by the profit-minded market. Supporters of the market approach counter that the mainland experience with market systems does not support those concerns, and that the regulatory approach, with its vulnerability to politics and bureaucratic inefficiency, has little to recommend itself as an alternative.

Much of the debate over the control of water as a natural resource depends on how water is defined as an economic resource. In this regard, water can be viewed either as a private or public good. A private good is defined as a commodity whose benefits are fully captured by those who pay for them. These types of goods are most appropriately distributed through the marketplace. Public goods are those whose benefits cannot be limited to those persons who pay for them, such as national defense, university educational systems, or clean air. These types of goods are most efficiently provided through the government. Public goods also include items so valued by society that they are provided as a matter of principle, such as elementary and secondary education. From this point of view, although the benefits of water may be fully captured by those paying

public assistance in hawaii

Series	Unit	Period	Number	Percent Change	
				from preceding period	year ago
PUBLIC ASSISTANCE					
RECIPIENTS*					
Income Maintenance	no./persons	Sept.	60,705	-0.5	-4.1
Services	no./cases	3rd Qtr.	6,903	-1.8	-3.0
Medical	no./patients	Sept.	43,783	-14.8	-7.0
Food Stamps	no./persons	August	98,432	0.0	-2.0
PAYMENTS					
Income Maintenance	thous. \$	Sept.	8,389	-0.7	-5.7
Services	thous. \$	3rd Qtr.	3,369	16.9	-1.3
Medical	thous. \$	Sept.	9,141	-32.4	-40.6
Food Stamps	thous. \$	August	6,540	0.6	0.5

*Count of recipients is duplicated. A person may be counted in each category.
Sources:
Public Assistance—Hawaii State Department of Social Services and Housing.

banking and finance in hawaii

FINANCE					
COMMERCIAL BANKS					
Total Deposits					
STATE	mil. \$	Sept.	6,373	-0.5	12.2
Honolulu County	mil. \$	Sept.	5,260	-0.2	12.3
Maui County	mil. \$	Sept.	411.6	-2.8	15.6
Hawaii County	mil. \$	Sept.	469.0	-0.9	10.3
Kauai County	mil. \$	Sept.	231.6	-1.1	7.0
Debits to Demand Deposits					
STATE	mil. \$	Sept.	7,350	-10.5	-2.3
Honolulu County	mil. \$	Sept.	6,748	-10.1	-2.7
Maui County	mil. \$	Sept.	254.1	-18.5	-3.0
Hawaii County	mil. \$	Sept.	245.4	-11.1	-5.3
Kauai County	mil. \$	Sept.	101.5	-11.7	-0.8
Loans Outstanding—Total	mil. \$	3rd Qtr.	3,970	-1.2	9.0
Real estate	mil. \$	3rd Qtr.	1,644	-1.1	-0.4
Consumer	mil. \$	3rd Qtr.	909.6	0.9	11.8
Commercial & Industrial	mil. \$	3rd Qtr.	1,126	1.4	7.4
Other	mil. \$	3rd Qtr.	290.1	-15.2	127.0
SAVINGS & LOAN ASSOCIATIONS*					
Total Deposits	bil. \$	August	3,741	-0.1	5.6
Loans	mil. \$	August	52.4	21.2	84.6
Residential	mil. \$	August	37.6	57.7	201.1
Other	mil. \$	August	14.8	-23.7	-7.0
STATE TAX COLLECTIONS*					
TAX COLLECTIONS—STATE	thous. \$	Jan.-Sept.	1,042,186	.....	9.5
Honolulu County	thous. \$	Jan.-Sept.	911,511	.....	9.1
Maui County	thous. \$	Jan.-Sept.	56,149	.....	9.9
Hawaii County	thous. \$	Jan.-Sept.	54,190	.....	11.0
Kauai County	thous. \$	Jan.-Sept.	20,337	.....	20.1

na = not available due to changes in reporting forms.
*Includes data for both Hawaii and Guam.
*Excludes property taxes which were formerly collected by the State but are now collected by the Counties.
Sources:
Finance—Hawaii State Department of Commerce and Consumer Affairs. Federal Deposit Insurance Corporation reports.
Federal Home Loan Bank of Seattle.
State Tax Collections—Hawaii State Department of Taxation.

for it, water can also be considered as a "merit" good that each individual member of society is entitled to receive.

However, this does not in itself argue for a totally government-controlled water allocation system. There are a range of arrangements between a totally public and a totally private system in which the pricing of water and water rights could be applied to varying degrees. In other words, if Hawaii is to select a highly regulatory version of the water code like the initial draft, it must do so for reasons that go beyond purely economic principles.

Water rights experts who have looked at Hawaii's system have identified several other important issues which a new water code should address: (1) What are the water rights of native Hawaiians? (2) How can more efficient or valuable users of water purchase the water rights of less productive users? (3) How does the proposed code protect against the intrusion of politics in water allocation decisions? (4) How is private investment in water development supported? (5) How are water users encouraged to take into account the long-term consequences of their actions on water resources? (6) In requiring users to reapply for their water permits even if they use less water, how would wasteful consumption in order to avoid the necessity of reapplication be discouraged?

These are difficult issues. How they are addressed will depend, in part, on whether an overall regulatory or market approach is taken in water rights and allocation. Essentially, the choice for policymakers is between the concern for equity that the regulatory approach represents, versus the flexibility and efficiency of the market.

Rather than totally embracing either concept, a combined approach may be the most appropriate. For example, a market-oriented system may be appropriate under normal water conditions, while a regulatory approach might be necessary under conditions of water shortage. Similarly, the system could apply different degrees of regulation for different parts of the state. Only Oahu now has a foreseeable water supply problem, with West Maui a potential future candidate. In general, among the neighbor islands, the problem appears to be one of insufficient water development rather than of insufficient water supply. The water code could therefore provide a more market-oriented approach for the neighbor islands, reserving stricter regulation for Oahu.

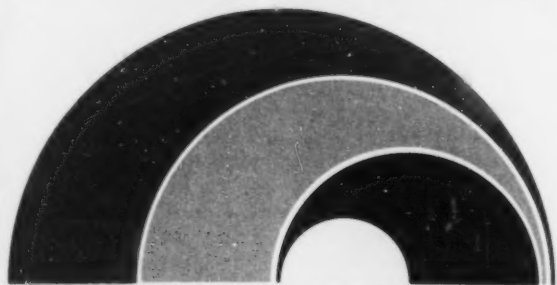
The range of possible options concerning regulatory versus market approaches to water rights and allocation are varied. An ideal solution would seek to combine the best of both approaches, tailoring the system to the diverse water supplies, water demands, geography, micro-climates, and infrastructure development within the state. Already, public comments on the draft code have expressed the need for flexibility, greater security for water developments, and for easing the regulatory burden. The challenge will be to address these varied concerns, while maintaining the degree of consensus needed to adopt the Code.

For further information, contact the Legislative Reference Bureau.

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